

## Message Text

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PAGE 01 ROME 19773 031935Z

14

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 SP-02 USIA-06

AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /104 W

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AMEMBASSY CAIRO

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AMEMBASSY KUWAIT

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AMEMBASSY TEHRAN

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AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VALLETTA

AMEMBASSY VARACAS

AMCONSUL FLORENCE

AMCONSUL GENOA

AMCONSUL MILAN

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PAGE 02 ROME 19773 031935Z

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E.O. 11652: N/A

TAGS: EFIN, EINV, ECON, IT, LY

SUBJECT: LIBYAN INVESTMENT IN FIAT

REF: TURIN 417 (NOTAL)

1. EMBASSY ANALYSIS AND COMMENT ON FIAT ANNOUNCEMENT OF LIBYAN INVESTMENT AS REPORTED REFTEL FOLLOWS.

2. FINANCIAL PACKAGE: THREE-TIERED INVESTMENT AND LOAN PACKAGE TOTALLING 360 BILLION LIRA (\$415 MILLION AT PREVAILING EXCHANGE RATE), UNDERWRITTEN BY THE LIBYAN ARAB FOREIGN BANK (LAFB), FALLS INTO 3 CATEGORIES (FOR DETAIL COMPONENTS OF PACKAGE SEE REFTEL).

A) FIAT'S PRESENT REGISTERED CAPITAL STOCK OF 150 BILLION LIRA, REPRESENTED BY 300 MILLION SHARES OUTSTANDING AT FACE OR NOMINAL VALUE OF 500 LIRA EACH, WILL BE INCREASED TO LIRA 165 BILLION THROUGH ISSUANCE 30 MILLION NEW SHARES (20 COMMON, 10 PREFERRED) TO LAFB AT FACE VALUE PLUS PREMIUM OF 5,500 LIRA EACH, I.E. TOTAL VALUE 6,000 LIRA PER SHARE (COMPARED WITH MARKET PRICE OF 1,800 LIRA PER SHARE). ACTUAL CAPITAL INPUT: LIRE 180 BILLION.

B) FIAT WILL ISSUE LAFB 90 BILLION LIRA IN 9.5 PERCENT CONVERTIBLE BONDS HAVING NOMINAL VALUE LIRA 1,000 EACH. BONDS, FOR WHICH FIVE ANNUAL AMORTIZATION PAYMENTS BEGIN DECEMBER 31, 1982, ARE CONVERTIBLE BETWEEN JUNE 1978 AND JUNE 1982 AT RATE OF 18 BONDS FOR 2 COMMON AND 1 PREFERRED SHARE OF FIA STOCK. THUS 18,000 LIRA FACE VALUE BONDS CONVERT TO 3 SHARES STOCK AT AVERAGE OF 6,000 LIRA EACH, OR SAME NOMINAL VALUE AS ESTABLISHED FOR STOCKS INVOLVED IN FIRST TRANCHE ISSUED LIBYANS PARA A.

C) LAFB WILL ISSUE FIAT 10 YEAR LOAN IN US DOLLARS 104 MILLION (90 BILLION LIRA) WITH INTEREST FLUCTUATING AT A 0.25 PERCENT SPREAD ABOVE 6 MONTH LONDON INTERBANK OFFER RATE, WHICH IS RATE NORMALLY APPLIED TO INTERNATIONAL LOANS BETWEEN COUNTRIES WITH HARD CURRENCIES. REPAYMENT OVER 8-YEAR PERIOD, STARTING END OF THIRD YEAR AFTER DATE OF ISSUE.

3. CONTROL ASPECTS: IN PRESENTING PACKAGE, FIAT PRESIDENT AGNELLI STATED THAT IFI, FIAT FINANCIAL HOLDING COMPANY CONTROLLED BY LIMITED OFFICIAL USE

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PAGE 03 ROME 19773 031935Z

AGNELLI FAMILY, NOW OWNS ABOUT 35 PERCENT OF FIAT SHARES. BY CONTRAST, IFI BALANCE SHEET JUNE 30, 1975 SHOWED IFI OWNERSHIP AT 62 MILLION SHARES OR ABOUT 20 PERCENT OF OUTSTANDING STOCK. IN MEANTIME, APPARENTLY TAKING ADVANTAGE OF LOW PRICE FIAT SHARES ON STOCK MARKET, IFI HAS ACQUIRED SOME 43 MILLION SHARES TO BRING IT UP TO 35 PERCENT LEVEL. THUS, EVEN WITH FIRST TRANCHE PURCHASE OF 30 MILLION SHARES BY LIBYANS, LATTER'S OWNERSHIP IS 9.09 PERCENT COMPARED WITH IFI OWNERSHIP OF 30.5 PERCENT. SHOULD

LIBYANS EXERCISE OPTION TO CONVERT TOTAL BOND ISSUE (ABOVZ) TO STOCKS, THEIR NUMBER SHARES WOULD INCREASE BY 15 MILLION WITH LIBYAN INTEREST RISING TO 13 PERCENT OF NEW TOTAL SHARES, COMPARED WITH IFI CONTROL OF ABOUT 29 PERCENT. MOREOVER, OTHER LARGE SHAREHOLDERS INCLUDE PIRELLI, BASTOGI, AND MEDIOBANCA, SO THAT CONTROL STILL REMAINS PRETTY WELL ASSURED IN HANDS OF AGNELLI AND FRIENDS. HOWEVER, LIBYA WILL GAIN 2 OF 15 SEATS ON BOARD OF DIRECTORS, ONE OF WHOM WILL BE A MEMBER OF 5-MAN EXECUTIVE COMMITTEE.

4. FIAT-LIBYAN MOTIVES: PRESS HAS BEEN RAMPANT WITH SPECULATION AS TO WHY THIS DEAL TOOK PLACE. FIAT IS IN RELATIVELY HEALTHY FINANCIAL CONDITION, HAVING CLEANED UP SHORT-TERM INBEDTEDNESS, AND LONG-TERM DEBT IS LESS THAN 5 PERCENT OF 1976 SALES. ANSWER TO ACTION PROBABLY LIES IN A) FINANCING NEEDED FOR FUTURE INVESTMENT OBJECTIVES, B) EQUITY CAPITAL DIFFICULT TO OBTAIN IN ITALY, C) FINANCING FROM SEMI-GOVERNMENT SOURCES SUBJECT TO GOVERNMENTAL AND POLITICAL STRONGS. HENCE, FIAT TOOK ADVANTAGE OF LIBYAN BANK OFFER. FROM LIBYAN VIEWPOINT, FIAT AS WELL-MANAGED COMPANY REPRESENTS ATTRACTIVE PROSPECT FOR PETRO-DOLLAR SURPLUS AND LIBYA'S FIRST MAJOR INDUSTRIAL VENTURE OUTSIDE ARAB WORLD. IN ADDITION, LIBYANS HAVE LONG-STANDING HISTORICAL AND ECONOMIC TIES WITH ITALY.

5. GOVERNMENTAL BLESSING: AGNELLI STATED HE HAD INFORMED PRESIDENT LEONE, PRIME MINISTER ANDREOTTI, TREASMIN STAMMATI, FOREIGN TRADE MINISTER OSSOLA. HE ALSO TOOK PARDONABLE PRIDE IN FACT THAT NEGOTIATIONS HAD BEEN CONDUCTED IN AIR-TIGHT SECRECY FOR PAST 18 MONTHS. NEVERTHELESS, THE PACKAGE MUST STILL BE APPROVED BY GOI UNDER REGULATIONS RELATING TO INCREASE IN CAPITALIZATION OVER CERTAIN LIMITS AS WELL AS REGULATIONS COVERING CONTRACTING OF FOREIGN LOANS OUTSIDE EC COUNTRIES. APPROVAL IS EXPECTED AT LEAST PARTLY BACAUSE FINANCING AMMOUNTS TO ABOUT 20 PERCENT OF DEFICIT IN ITALY'S BALANCE OF PAYMENTS.

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PAGE 04 ROME 19773 031935Z

6. INITIAL REACTION, AS REPORTED IN PRESS, HAS BEEN ONE OF SURPRISE, CAUTIOUS ACCEPTANCE TEMPERED WITH SUSPICION OF LIBYANS AND/OR ACTIVITIES OF FIA. SPECIFIC ISSUE OF SPECULATION IS WHETHER THERE IS MORE TO THE ARRANGEMENT THAN HAS BEEN ANNOUNCED, PARTICULARLY IN VIEW OF LIBYANS' PAYMENT FOR SHARES AT THREE TIMES MARKET VALUE. REACTION BUSINESS PRESS IS FAVORABLE, CHARACTERIZING ACTION AS SHREWD MOVE BY AGNELLI. SENATOR ANDREATTA, LEADING ECONOMIST IN DC, EXPRESSED FEELING MOST PREVALENT AMONG BUSINESS CIRCLES, CONFINDUSTRIA, AND DC BY TERMING ACTION "EXTREMELY FAVORABLE ... MONEY WAS INVESTED IN COMPANY TO INCREASE ITS FINANCIAL POTENTIAL AND DOES NOT REPRESENT APURCHASE OF EXISTING SHARES AS IN KRUPP CASE. FRESH CAPITAL IS NEEDED IN ITALY AND WAS PROVIDED BY LIBYA ON FAVORABLE TERMS WHILE CONTROL REMAINS IN HANDS OF AGNELLI FAMILY". DONAT CATTIN, DC LEFT WING INDUSTRY MINISTER, ECHOED SIMILAR SENTIMENTS. METALMECHANIC

WORKERS UNION SAID FIAT ACQUIRING MULTINATION STRUCTURE, CALLED FOR INVESTIGATION TO DETERMINE SCOPE OF LIBYAN INVESTMENT AND BASIS FOR DECISION. COMMUNIST PARTY WAS GENERALLY FAVORABLE BUT RESERVED OPINION UNTIL INFORMATION AVAILABLE ON TYPES OF INVESTMENT WHICH WILL BE MADE WITH FRESH MONEY FROM LIBYA. STRONGEST CRITICISM CAME FROM SOCIALISTS, WHO EXPRESSED SUSPICION OVER HIGH PRICE PAID BY LIBYANS FOR FIAT SHARES, BLAMED GOVERNMENT FOR FAILURE TO PROVIDE STABILITY WHICH WOULD HAVE OBVIATED NEED TO SEEK FOREIGN INVESTMENT, CALLED FOR PARLIAMENTARY REVIEW OF ARRANGEMENT AND ASSERTED THAT FIAT-LAFB DEAL WAS FURTHER INDICATION OF NECESSITY FOR GREATER ECONOMIC PLANNING IN ITALY.

7. EMBASSY COMMENT: AGNELLI'S EMPHASIS OF FINANCIAL NATURE MASSIVE INFUSION LIBYAN CAPITAL CAN BE TAKEN AT FACE VALUE, SINCE IT REPRESENTS ON SURFACE A GOOD DEAL FOR BOTH SIDES: FIAT GET MORE CAPITAL ON EXCELLENT TERMS, WHICH LEAVES AGNELLI OSTENSIBLY FREE TO CARRY OUT INVESTMENT PLANS; LIBYANS PUT THEIR PETRO-DOLLARS TO WORK IN STRONG, IMPORTANT WEST EUROPEAN ENTERPRISE. GOVERNMENT SOURCES TAKING OBVIOUS SATISFACTION FROM HARD CURRENCY INFUSION TO BALANCE PAYMENTS, REFERRING TO "CONFIDENCE PLACED BY LIBYANS IN ITALIAN ECONOMY". ISSUE OF WHY LIBYANS ARE WILLING TO PAY SO MUCH ABOVE MARKET PRICE OF STOCK REMAINS SHROUDED, AND QUESTION OF SIDE AGREEMENTS OR BARTER DEALS HAS BEEN RAISED. HOWEVER, ROMITI, MANAGING DIRECTOR FIAT DENIED THERE ARE SECRET COMMITMENTS RELATING TO TRANSFER OF TECHNOLOGY OR EXPORT OF ARMS. OPEN QUESTION IS WHETHER FIAT-LAFB ARRANGEMENT LIMITED OFFICIAL USE

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REPRESENTS STEP TOWARD INCREASING LIBYAN STAKE IN ECONOMIC SUCCESS OF WESTERN INDUSTRIALIZED WORLD OR OPPORTUNITY TO CAUSE MISCHIEF THROUGH ITS INFLUENCE IN FIAT.VOLPE

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